

1 

## **NCCI Report & Workers' Compensation Cost Reduction Workshop**

2 

### **Workshop Objectives**

- How to Understand Your NCCI Report
- 
- How to Identify Errors on Your NCCI Report
- 
- How to Manage & Reduce Your Mod Rate
- 
- How to Lower Costs Through Proactive Claims / Clinical Management
- 

3 

### **Why Are Worker Compensation Premiums Increasing?**

- Insurance Marketplace – M & A's / Insolvency's
- 
- Insurance Company's Investment Income
- 
- Insurance Company's Operating Profits/(Losses)
- 
- Increasing Medical & Indemnity Costs
- 
- Economic Turmoil
- 

4 

### **Insurance Marketplace**

- Mergers and Acquisitions
- 
- ST Paul – Travelers – USF & G
- C.N.A. – Continental Insurance
- Hartford – Reliance
- AIG – Conglomerate
- Regionals – EMC, Allied, Unigard, AutoOwners

5 

### **Insurance Marketplace (Cont.)**

- Insolvency / Rating Downgrades
- 
- Kemper
- Reliance
- Royal Sun Alliance
- Wasatch Crest
- Washington Mutual Insurance

6 7 

### **Operating Profits / (Losses)**

8 

### **Medical Costs**

9 

### **Indemnity Costs**

10 

### **Economic Turmoil**

- Insurance Premiums Less
- Investment Income Down
- Insurance Company Profits Down

- Claims Up
- Less Capital Investment – Bad
- What will be the net result???

GET READY..!!!

- Experience Modification Rating Worksheets are the *Heart and Soul* of your Workers' Compensation Premium

**Experience Mod Worksheet Components**

  - Code – Classification code of employees job duties (8810 clerical; 8742 sales etc )
  - ELR – Expected Loss Rate – Per \$100 of Payroll (Expressed in dollars and cents)
  - D Ratio – Discount Ratio that determines Primary Losses (the first \$5,000 of any loss)
  - Payroll – Amount of payroll reported by insurance company by class code
  - Expected Losses – Dollar amount of losses expected ( $\text{ELR} \times \text{Payroll} / 100$ )
  - Expected Primary Losses - Dollar amount of losses that are expected to be primary ( $\text{Expected loss} \times \text{D Ratio}$ )

**Experience Mod Worksheet Components**

  - Claim Data – Actual claim number for losses reported by insurance company
  - IJ – Injury Code assigned to each claim based on the type of injury
    - 1 – Death                                  4 – Minor Permanent Partial Disability
    - 2 – Permanent Total Disability        5 – Temporary Partial or Total Disability
    - 3 – Major Permanent Partial Disability      6 – Medical Only
    - 7, 8 (Non-UT)    9 – Permanent Partial Disability
  - O – Open claim on valuation date  
F – Final / Closed claim on valuation date  
\* – Claims that are combined / grouped together (less than \$2,000)  
# – Maximum Claim Amount  
(Utah – 2009 \$ 97,000)  
(Utah – 2010 \$102,500)
  - Actual Incurred Losses – Actual dollar amount of claim plus amounts set aside for future payments (Open Claims)
  - Actual Primary Losses – Dollar amount of loss considered primary (\$5,000)

**Experience Mod Worksheet Components (cont.)**

  - IJ – Injury Code (1 – 9; 7-8 Non-Utah)

- Injury Code 1 - 5 – Medical and Indemnity
- 
- Injury Code 6 – Medical Only
- 18 ☐ **Where to Find Errors on the Experience Mod Worksheet?**
  - Payroll
  - Classifications
  - Policy Date Changes
  - Open Claims on Loss Runs vs NCCI Report
  - Valuation Date - 6 Months Before Renewal
  - Subrogation and other Recoveries
- 19 ☐ **Accuracy of Payroll**
- 20 ☐ **Accuracy of Payroll (cont.)**
  - Payroll should have been reported as \$72,110,080 rather than \$7,211,080
  - Current Experience Mod - .67
  - Corrected Experience Mod - .54
  - Results- Costly Clerical Error, costing company in excess of \$125,000 for the past 3 years
- 21 ☐ **Accuracy of Classifications**
- 22 ☐ **Accuracy of Classifications (Cont.)**
- 23 ☐ **Accuracy of Classifications (Cont.)**
- 24 ☐ **Changing Policy Dates**
- 25 ☐ **Changing Policy Dates**
  - Prospective client has a 4/12/06 renewal date.
  - Experience mod will be a 1.15.
  - Current carrier and broker were willing to change renewal date to 1/1/06 for "convenience".
  - Changing of policy would result in an overcharge in premium of approximately \$45,000 due to an increased experience mod.
- 26 ☐ **Accuracy of Claims from Loss Runs**
- 27 ☐ **6 Month Valuation Date**
  - 6 months prior to renewal date
  - Unit Statistical Report
  - Claims reviewed prior to Valuation Date
  - Open / Closed
  - Reserves
  - Aggravated Inequity Rule – closed claim 25% below reserves
- 28 ☐ **Accuracy of Claims / Valuation Date**
- 29 ☐ **Loss Runs**
- 30 ☐ **Accuracy of Claims / Valuation Date**
- 31 ☐ **Valuation Date Summary**
  - 6 open claims at valuation date
  - All 6 were closed within 1 month of valuation date
  - E-Mod before claims were closed: 1.21
  - E-Mod after claims were closed/fixed: .83
  - WC premium before claims were closed: \$39K
  - WC premium after claims were fixed: \$23K
- 32 ☐ **E.R.A. - 70% Rule**  
**(Experience Rating Adjustment)**

- A claim that Did Not incur any Indemnity Payments will have medical expense costs Reduced by 70% for mod calculation purposes
- State Specific – Utah (Yes)

33 ☐ **ERA States**

34 ☐ **Financial Impact**

**Injury Code 5 vs 6**

35 ☐ **Injury Code 5 v. 6**

36 ☐ **3 Analyses Which Must be Studied by Everyone with Experience Mod**

- 
- The Gap Between your Current Mod and Minimum Mod
- 
- Actual vs. Expected Losses
- 
- The Cost of Each Loss

37 ☐

38 ☐

39 ☐

40 ☐

41 ☐

42 ☐

43 ☐

44 ☐ **Credit Rate v. Mod Rate**

1 ☐ **Marketplace / Fed**

- 
- DNB / TRW / Equifax
- 
- Financially Responsible
- 
- Competent Banker, CPA
- 

■

■

2 ☐ **Marketplace / Loss History**

- NCCI
- 
- Responsible Risk Mgt
- 
- Competent Broker, Agent
- 

45 ☐ **Credit Rate v. Mod Rate (Cont.)**

Workers' Compensation is not insurance. Technically, it is an employee benefit. It is also a financing mechanism. You will typically pay back every small claim by an average of 1 to 3 times over 3 years.

If you were seeking a business loan, what rate would you qualify for? What rate would you find acceptable?



What mod rate do you currently have? What mod rate would you find acceptable?  
 What mod rate could you have?

Prime Rate = Min Mod Rate

46 ☐ **Direct / Indirect Costs**

**The Tip of the Iceberg**

47 ☐ **Something to Consider...**

■ If you have two roofing companies with 50 employees each, one company has a mod of 1.50 and the other company has a mod of 1.00; is there any difference in these exposures?

■ Who gets paid more when your mod rate increases?

■

■ What incentive does the insurance industry have to reduce your mod rate?

48 ☐ **Are you in Control of your Experience Mod?**

**Do you need Help in controlling your Experience Mod?**

**Who do you want to help you with your Experience Mod?**

49 ☐ **Workshop Summary**

- Do you understand your NCCI report?
- Do you know where to find errors?
- Do you understand the ERA rule?
- Do you understand 6 month Valuation Date?
- Do you understand the importance of "Return To Work" policy?
- Do you understand the total cost of injuries?
- 

50 ☐ **Ways to Reduce Workers Compensation Cost**

- 1 ■ Implement proactive HR strategies
  - Establish formal written safety programs
  - Create a formal written "return to work" policy
  - Maintain a drug free workplace
  - Conduct a NCCI analysis
- 2 ■ Utilize manage care with clinic
  - Establish proactive claims management
  - Create systematic training program
  - Consult w competent "trusted advisors"
  - Improve safety culture

51 ☐

52 ☐ **Value Added Services**

- 1 ■ Transitional Duty Program
  - Safety Meetings
  - Safety / Loss Control Manuals
  - Tool Box Talks
  - Job Hazard Assessments (JHA's)
  - OSHA Compliance / Review
  - Quarterly Claims Reviews
  - E Mod Analysis

■ Emergency Action Plan

■

■

■

■

■

■

2 ■ Supervisor Safety Training

■ Drug Testing Consultation

■ Driver's Policy

■ HR Assessment

■ Employee Handbook

■ Annual Safety Plan

■ MyWave - Internet Safety

■ Newsletters

■ Full Time Safety Manager

■

■

53 